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UNCLAS SECTION 01 OF 02 ALMATY 000897

SIPDIS

DEPT FOR SCA/CEN MUDGE
DEPT PASS TO OPIC - BALLINGER
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER
DEPT PASS TO AID - EE-PHILLIPS/RUSHING
TREASURY FOR OASIA/VELTRI
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS
USDOC FOR 6110/ITA/TD/BI/RHALPERN
ANKARA FOR CFC

E.O. 12958: N/A

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SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE
February 19 - March 4, 2006

1. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

-- Quality of Economic Growth in Kazakhstan in 2005
-- Foreign Labor Quota for 2006
-- Murabah Islamic Financing in Kazakhstan
-- Halyk Bank to Boost Retail Deposits
-- A Fiber Link between Baku and Aktau
-- Forecast 2006 Mineral Resources Production
-- GOK Discusses Nuclear Power Industry Program
-- Atasu-Alashankou Pipeline to Start Exports in May
-- Farmers to Get 700,000 tons of Subsidized Diesel Fuel

Quality of Economic Growth in Kazakhstan in 2005

2. "We have economic growth, and we cannot deny it. GDP growth amounted to 9.4%; GDP per capita grew to \$3,620; salaries and pensions increased; the housing construction stepped up. But the point is in the quality of this growth, investments, and fiscal and budgetary policy," the chairman of Kazakhstan's Economists Association, Arystan Yesentugelov, said to Interfax. "GDP growth was fueled not by industry, where growth declined to 4.6% from 10.9% in 2004, but mainly due to construction and the real estate sector," he explained. In Yesentugelov's words, "we are losing production and moving toward speculative profits," and this trend will "manifest itself in a few years." In his opinion, a weakening of domestic demand, degradation of investment quality, and increase of latent budget investment (i.e. investment spending by national companies and development institutions not directly reflected in government spending figures) in fixed capital are leading to the deterioration of economic growth. (Interfax - Kazakhstan, February 28)

Foreign Labor Quota for 2006

3. Prime Minister Akhmetov signed a decree on February 13 increasing the foreign labor quota for 2006 from 0.45% of the economically active population to 0.55%. For the first and second categories (managers and specialists with higher or special education), the quota is raised from 0.21% to 0.24%; for the third category (qualified workers), the quota is raised from 0.11% to 0.18%; and for the fourth category (seasonal farm workers) the quota remains unchanged - 0.13%. (Interfax - Kazakhstan, February 27)

Murabah Islamic Financing in Kazakhstan

4. "On February 27, 2006, Bank CenterCredit (BCC) signed a loan agreement raising \$38 million from Murabah Islamic Financing for one year," BCC press service announced on March 2. Ten Islamic financial institutions, including Abu Dhabi Islamic Bank, Commercial Bank of Qatar, Boubyan Bank, Dubai Bank PJSC, and Habib Bank, are participating in the transaction along with Murabah Islamic Financing. BCC is among the six largest banks of Kazakhstan, with assets of KZT 333 billion (approximately \$2.5 billion) as of January 1, 2006. (Interfax - Kazakhstan, March 2)

Halyk Bank to Boost Retail Deposits

5. Financial group of Kazakhstan-based Halyk Bank plans to increase its retail deposits up to \$3 billion by the end of 2006. As Halyk Bank chair Grigoriy Marchenko highlighted, the question is about the aggregate retail deposits of the Bank itself and its subsidiaries: Halyk Bank Pension Fund, Halyk Finance, Kazinstrakh and life insurer Halyk Life.

Marchenko also specified that retail deposits with Halyk Bank stood at KZT 138.3 billion (about \$1.06 billion) as of March 1, 2006, which proves the bank's leading position in retail banking. (Interfax - Kazakhstan, March 2)

A Fiber Link between Baku and Aktau

16. Kazakhstan and Azerbaijan are considering putting on the Caspian seabed a fiber link between Baku and Aktau. "This project will link the Central Asian region with Azerbaijan, Turkey and European countries on a new route and promote the transit capability of Kazakhstan," Rizata Nurshabekova, vice chairwoman of the Kazakhstani State Agency for Informatization and Communications, announced on February 16 in Astana. (Interfax-Kazakhstan, February 20)

Predicted Mineral Resources Production for 2006

17. According to Kazakhstan's Energy Ministry, in 2006 Kazakhstan plans to produce 62.5 million tons of oil and gas condensate, 1.6% higher than 2005, and 27.6 billion cubic meters of natural gas, up 6% year-on-year. The Republic's coal production is targeted at 87.3 million tons, up 1%, and electricity generation at 73 billion kWh, up 8%. (Interfax - Kazakhstan, February 27)

18. Kazakhstan anticipates a 30% increase in oil production by 2010 compared to 2005, mainly due to increased oil recoveries at Tengiz oil deposit, Energy Minister Izmukhambetov stated. By 2010, the country plans to increase gas production by more than 40 billion cubic meters and gas exports by 15 billion cubic meters. The remaining volumes will be reinjected and used for domestic consumption, including power generation needs. (Interfax - Kazakhstan, February 27)

GOK Discusses Nuclear Power Industry Program

19. On February 20 Prime Minister Akhmetov chaired an inter-ministerial discussion of nuclear power industry development issues. A working group under the Prime Minister is to be created. According to the Prime Minister, "the peaceful application of nuclear power using advanced technology to stimulate nuclear cluster development." The Ministry of Energy started working on a "Nuclear Power Development Program through 2030." In 2005 Kazakhstan produced 4,360 tons of uranium. (Interfax - Kazakhstan, February 20)

Atasu-Alashankou Pipeline to Start Exports in May

10. According to KazTransOil, the oil transportation subsidiary of KazMunayGaz, as of February 23, Atasu-Alashankou oil pipeline was 12.6% filled with oil. The GOK expects that the pipeline will begin delivering oil to China in May. Russia's Rosneft confirmed its "serious interest to this route", according to Rosneft President Bogdanchikov. Rosneft can ship oil to Atasu-Alashankou by means of the Omsk-Pavlodar pipeline. (Interfax - Kazakhstan, February 27)

Farmers to Get 700,000 tons of Subsidized Diesel Fuel

11. Kazakhstan's Energy Ministry has reached an agreement with major oil products suppliers to ensure a supply of 700,000 tons of diesel fuel for sowing and cropping campaigns. Under the agreement, the fuel will be provided at a price of not more than \$400 per ton. A corresponding "Memorandum on Social Partnership" was signed by oil product refiners on February 9, and a subsequent protocol on "Stabilization of the Oil Product Market" was signed later on February 17. (Interfax - Kazakhstan, February 27)

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